

“A Dual Track Process for Utility Deregulation”

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Presentation to the
Energy and Power Subcommittee
Commerce Committee
U.S. House of Representatives

Field Hearing on Electric Utility Restructuring
Chicago, Illinois

Friday, May 2, 1997

Introduction

Good morning. My name is Samuel K. Skinner and I am president of Commonwealth Edison, the electric utility that provides service to the northern fifth of Illinois, including Chicago. Our service territory is home to about eight million people, nearly 70% of Illinois' population. I appreciate the opportunity to address the Subcommittee regarding an issue that is of critical importance to Illinois and the Nation.

I came to Commonwealth Edison five years ago with considerable experience in deregulation. Previous positions in government service had put me at the center of activity surrounding deregulation of the railroad, trucking, and airline industries. All of these have similarities to the electric utility business.

However, there are several factors that make electric utility deregulation unique:

- First, by any comparison world-wide, electric service in the United States is already excellent. America's utilities have met the demand for energy. .. without a "busy signal" like telephone companies use when their systems are overloaded. .. and without "bumped" passengers, the result of oversold flights when consumer demand exceeds the airlines' ability to deliver.
- Second, real prices are falling. On average, the cost of electricity is 27% lower than it was fifteen years ago. Further, U.S. electricity prices are half those in Germany and a fourth of those in Japan. World-wide, electricity prices over the past decade have declined in only one country: the United States.
- Third, the size of the electricity market is staggering: over \$200 billion in annual sales, a huge and important segment of our national economy.

- Fourth, contrary to what most people think, the supply system is very complex. The industry is an amalgam of about 200 investor owned utilities like ComEd, about 4,000 non-utility generation projects, almost 2,000 municipal electric utilities, and more than 900 electric cooperatives. This system is invisible to the consumer, who only cares if his lights and appliances work properly.
- Fifth, market power is broadly distributed over many suppliers. Even as one of the largest utilities, ComEd accounts for less than 4% of total electricity revenues. In fact, the four largest electric utilities have barely 17% of the industry's sales. By contrast, the four largest airlines control 56% of the industry's revenues. The four largest railroads run 69.5% of the revenue/ton miles.
- Sixth and perhaps most importantly for this hearing, electricity suppliers are "home grown" with close attachments to the customers they serve. Regional fuel supplies, social concerns, and the local cost of doing business have profound impacts on utility

operations. For example, utilities like ComEd serving major midwestern metropolitan areas face substantially different challenges than those serving western rural areas. Those in the northwest, where hydro-electric resources are abundant, enjoy a substantial cost advantage over utilities in Illinois, where terrain prohibits the widespread use of hydro. Also, taxes, labor costs, pollution control costs, and property values are generally higher in metropolitan regions like the Chicago area. As an example, Commonwealth Edison pays the City of Chicago \$170 million per year in municipal utility taxes and franchise fees. Since most of the over 400 municipalities we serve have imposed some form of utility tax, ComEd pays an additional \$783 million to these taxing bodies. Of course, all of this is included in rates. However, even with these burdens, we have successfully held down the cost of our product, presently selling 1,000 kilowatt-hours to typical residential customers in Chicago for \$114.18. According to a recent national survey (by TU Electric), the \$114 worth of electricity you buy in Chicago would cost you:

- \$122 in San Diego
- \$126 in Cleveland
- \$129 in San Francisco
- \$133 in Boston
- \$136 in Philadelphia
- and \$162 in New York City

Each of these regions has a different set of social, economic, and environmental priorities, factors that have been cause for careful deliberations by state regulatory bodies. And regulators haven't just set rates. They have developed complex "rules of the road," mandating practices for everything from billing ... to policies for connection and disconnection. .. to acceptable construction practices, and more. In fact, virtually everything we do that affects consumers ... which is almost everything. .. has been authorized by a state regulatory body.

The States' Role

There is presently an open and spirited utility deregulation initiative underway in Illinois to address transition problems in a deliberate, well thought out manner. After over two years of seminars and formal discussion of the issues, virtually every stakeholder is represented around the table, a process that involves nearly 80 individual negotiators. Representatives of all Illinois utilities, residential and low income consumer groups, state agencies, large industrial businesses, and future competitors are all at the table. We are confident that the process, which has already resulted in many innovative solutions to difficult problems, will produce a framework for competition that will be the best compromise possible. The Illinois deregulation plan will achieve lower prices, improved services, and financial credibility for this critical industry ... all packaged to be the best fit for Illinois.

Provisions of the Illinois Plan

The Illinois plan will have many components and I hesitate to discuss any one without presenting an entire overview. However, let me summarize a few of the things that we have researched, discussed, and achieved consensus on:

- The group has redefined the obligation to serve so that no one will be left behind under the new unregulated regime.
- We have reached agreement on how safe nuclear decommissioning will be paid for.
- We have provided for certification of suppliers so that new entrants are encouraged while consumers are protected from fly-by-night providers and sham transactions.

- . We have streamlined regulatory procedures so that both suppliers and regulators will have the tools necessary to respond quickly to changes in the market.
- We are working hard to accommodate the Midwest Independent System Operator in a fashion that encourages efficient, reliable operations.

The pace of negotiations is strong and we expect a package that will be the basis for consensus legislation as early as next week.

Steps to Mitigate Transition Costs and Become More Efficient

We understand what it will take to be competitive in a deregulated electricity market and have already begun preparing for the future.

To reduce potential transition costs we have sold two large fossil plants, announced the early retirement of the Zion Nuclear Station, and delayed the restart of the LaSalle County Nuclear Station.

Additionally, to improve efficiency we have introduced new

technology, streamlined management and clerical practices, and taken other measures to reduce operating and maintenance expenditures . . . all while meeting the growing energy needs of the burgeoning northern Illinois economy. Most of these decisions have been very hard, often having implications for our employees and the communities which have depended on our facilities for tax revenue. But each has been necessary. It is in the public interest that local problems be resolved, regional deregulation be implemented, and consumers have the opportunity to choose between many competitors operating on an equal footing.

The Federal Role

But this doesn't mean that there is not a role for the federal government in utility deregulation. In fact, it is critical that Congress and the Administration take the same deliberate steps to think through the problems with the goal of removing barriers to competition within your traditional jurisdiction. While I am realistic enough to believe that no business is on a truly "level playing field,"

this must be the ideal. The Public Utility Holding Company Act (PUHCA) , the Public Utility Regulator Policy Act (PURPA), sales to preference customers by the five federal Power Marketing Agencies (PMAs), and tax exempt financing for public power, all advantage some suppliers at the expense of others. Each masks true pricing signals. Each contributes to market inefficiency. While it may be politically unpopular, Congress must move ahead at a measured pace. You must develop a comprehensive plan that does not preempt state frameworks to ensure that state deregulation programs effectively foster efficient competition.

The Dual Track Process

In conclusion, I urge the Subcommittee to look at the process of deregulating utilities as a dual track process: state governments exercising their traditional jurisdiction to develop regional solutions first . . . Congress and the Administration focusing purposefully on the federal issues, striving toward the ideal of a “level playing field.” With deregulation underway in virtually every state, there should be

no rush to judgment and no attempt to interfere in the states' progress.

The resulting construct ~~will~~ be one that will benefit all consumers, protect investors, and move the Nation toward an economically efficient competitive electricity marketplace.

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